



# Indonesian Workforce Demography: Labor Law and Policy Amidst Aging Society

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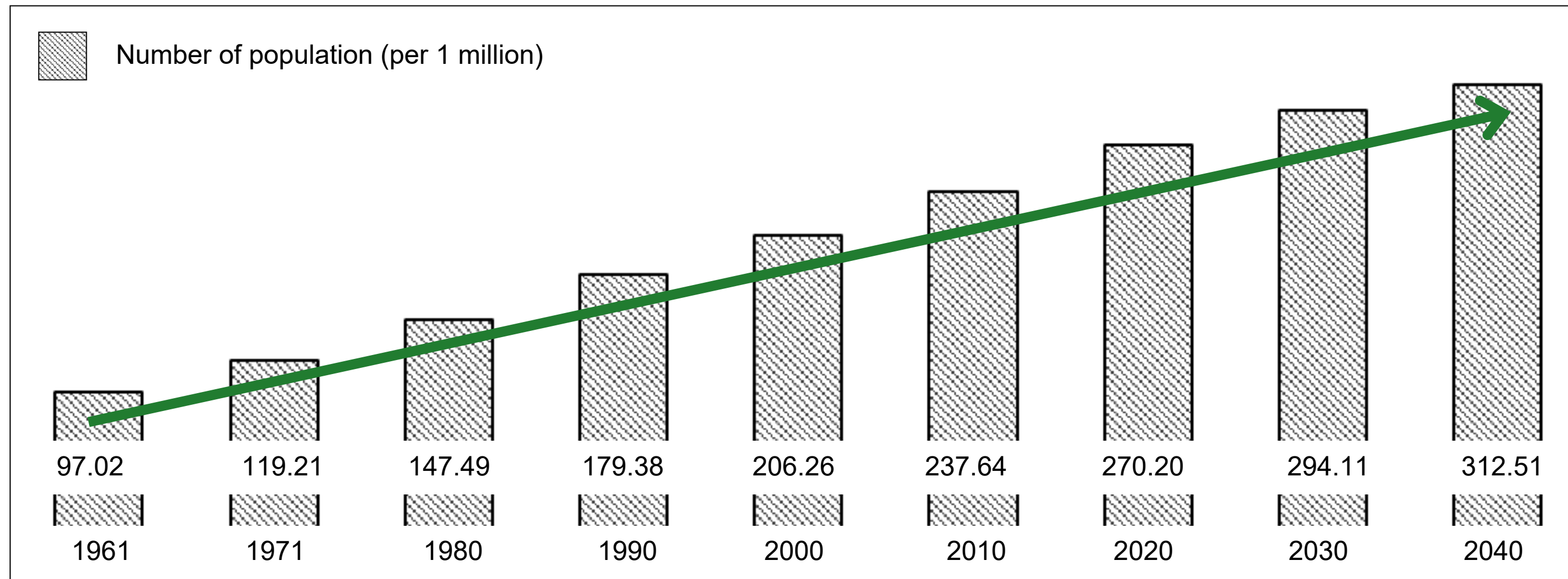
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*“Aging Population and Labor Law Policy”*

*Held by the Japan Institute for Labor Policy and Training*

# Projection and Trend of the Increase in Indonesia's Population



Source: Statistics Indonesia, 2022.



## The Youth (0-12 years old)

Fell from 44.12% in 1970



To 24.56% in 2020



Reflecting a **declining fertility rate**



## The Working Age (15-64 years old)

Rose from 53.39% in 1970



To 69.28% in 2020



Expected to **decline** by 2030



## The Elderly (> 64 years old)

Grown from 2.49% in 1970



To 6.16% in 2020



Projected to **more than double** in just next 20 years

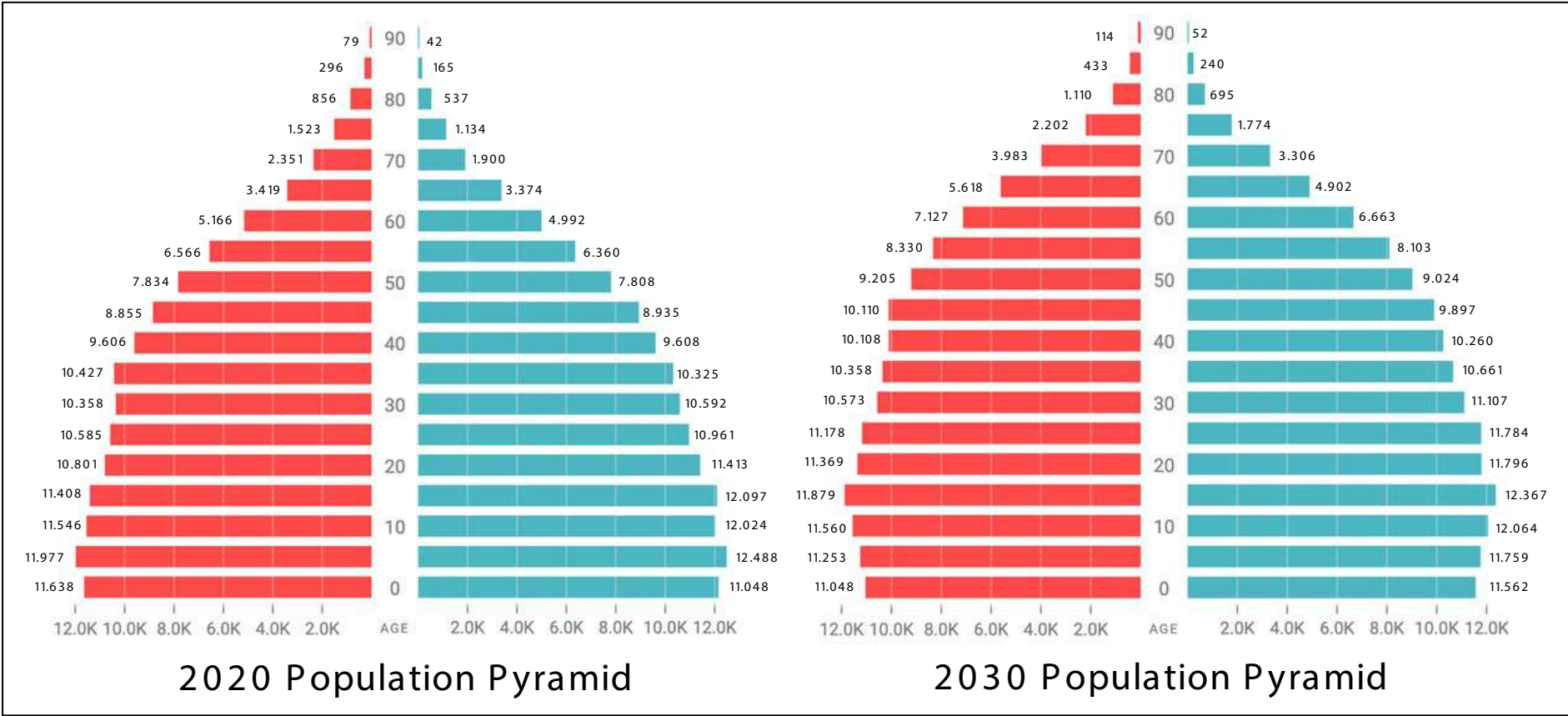
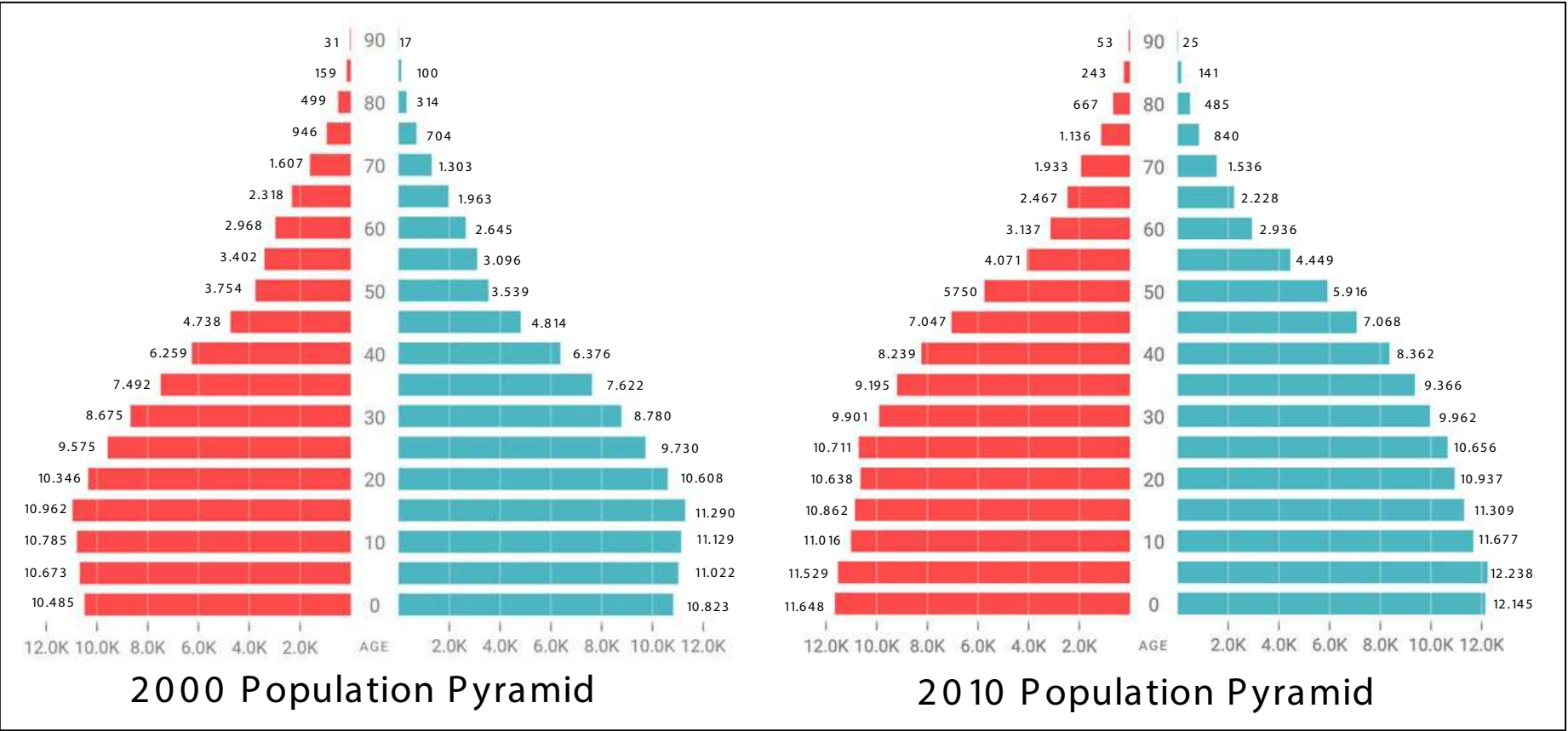
\*All free signs above signify the nation's demographic transition into an aging society.

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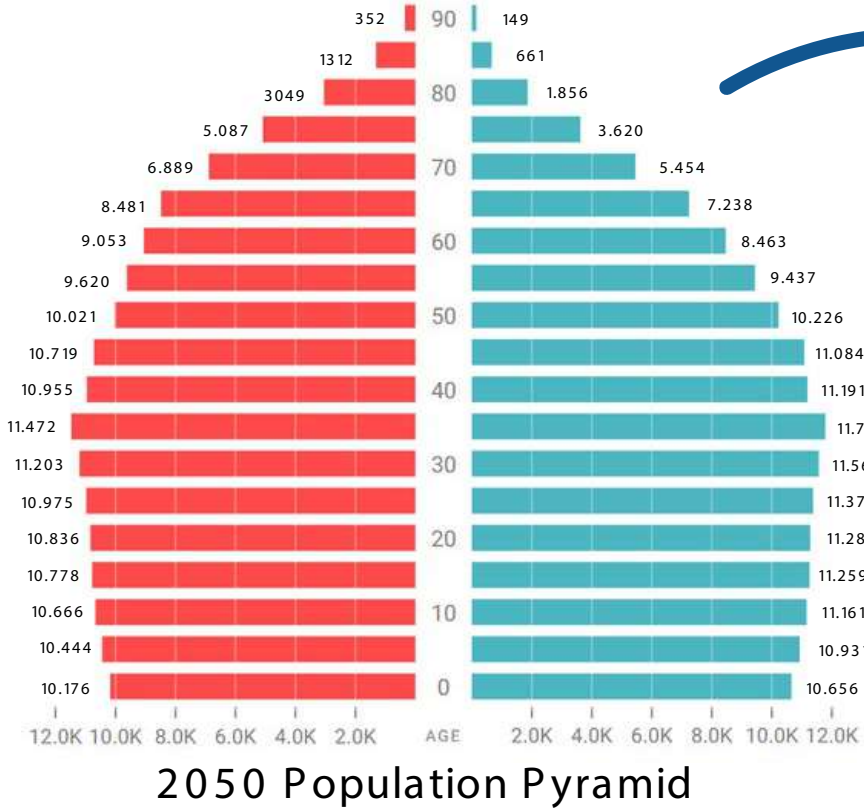
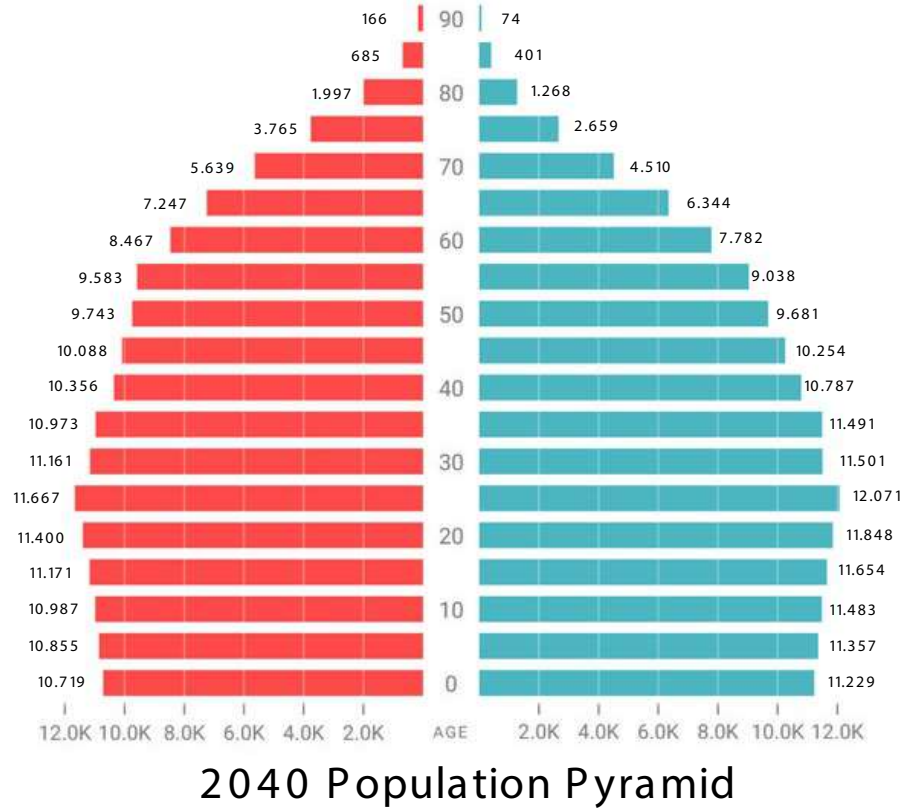


# Indonesia's Changing Demographic Trend

Indonesia's Population Pyramid by Age Group (in Thousands)



\*An aging population is reflected by the trajectory of the graph pyramid, which has shifted from an upward-tapering form to a downward-tapering form.



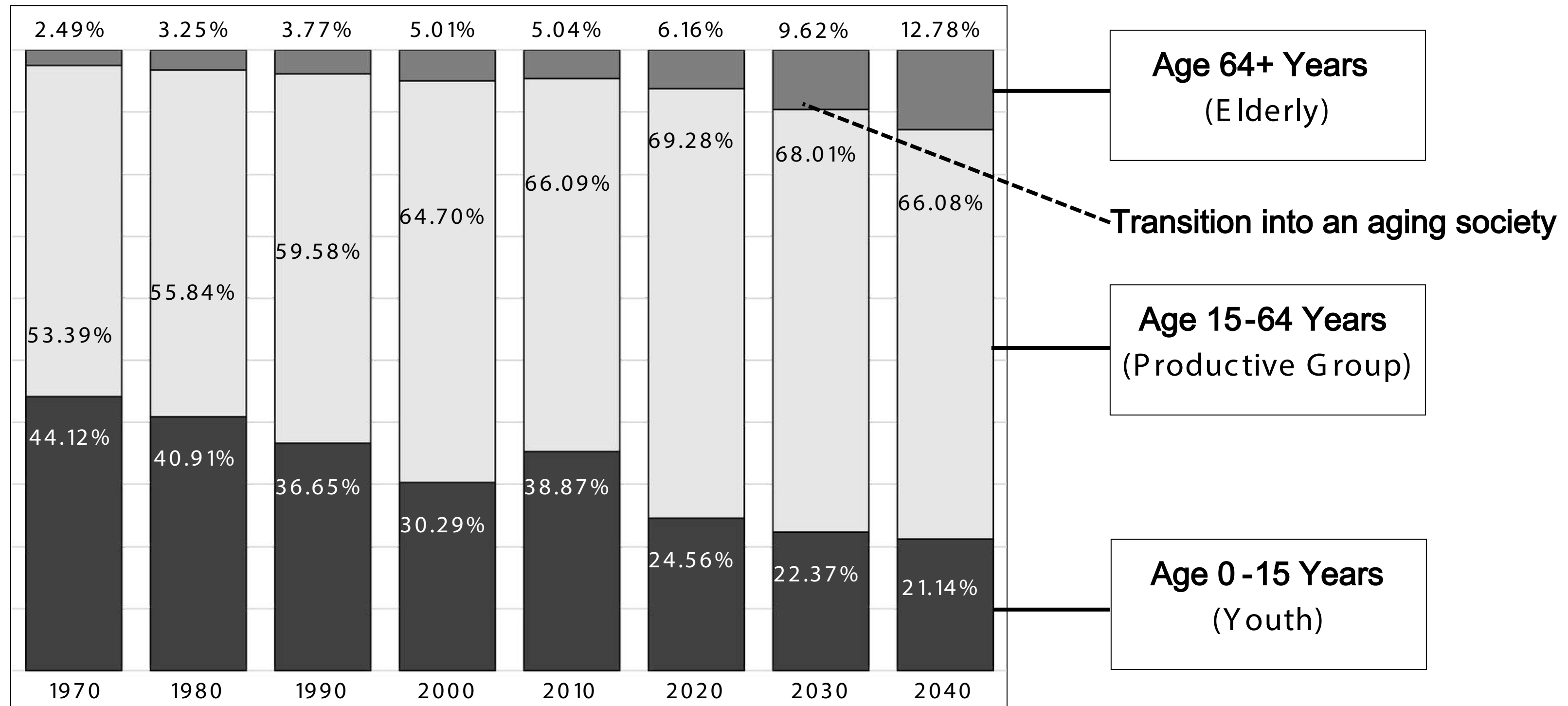
By 2050 , it is projected that Indonesia will have approximately **61 million** elderly citizens (aged 60 and above).

Females  
Males

Source: United Nations, 2017 (Revision).

# Indonesia's Demographic Shifts

Indonesia's Population Composition by Age Group (%)



Source: Statistics Indonesia, 2022.

Currently, the working -age population is sufficiently large to support the non-working age population.

This demographic peak is expected to occur around 2030, after which **the youth and working -age proportion will decline** and **the elderly population will increase** , indicating **a drop in fertility rates** , as well as **the rise of an aging society** .

# Legal Frameworks

Every three years,  
retirement age will rise by one year  
until it reaches 65 years.

(Art. 15 of Government Regulation No. 45/2015)



|       |            |
|-------|------------|
| 2019  | → 57 years |
| 2022  | → 58 years |
| 2025  | → 59 years |
| ..... |            |

|      |            |
|------|------------|
| 2037 | → 63 years |
| 2040 | → 64 years |
| 2043 | → 65 years |

Workers' Rights upon Reaching Retirement Age :

1. Severance Payment (*Pesangon*)
2. Length of Service Compensation (WPA)
3. Compensation Rights Pay (*Kompensasi*)
4. Pension Security (JP)
5. Old-Age Security (JHT)

# Regulations Protecting Older Workers

Job Creation Law regulates that workers who are terminated due to retirement age are entitled to :

## 1. Severance Payment ( *Pesangon* )

Provided upon termination of employment due to the worker reaching retirement age.

### How Much?

For less than a year to more than eight years of employment , the compensation is calculated at 1 to 9 months' salary .

e.g.

- < 1 year = 1 month salary
- $\geq 3$  years, but < 4 years = 4 months salary
- $\geq 7$  years, but < 8 years = 8 months salary
- $\geq 8$  years = 9 months salary

## 2. Length of Service Compensation (WPA)

Recognize workers' loyalty and tenure , based on their years of service .

For 3 to more than 24 years of service , the appreciation is calculated at 2 to 10 months' salary .

e.g.

- 3-6 years → 2 months' salary
- 6-9 years 3 months' salary
- >24 years 10 months' salary

## 3. Compensation Rights Pay ( *Kompensasi* )

1. Unused annual leave that is still valid;
2. Transportation to the employee's hometown; and
3. Other benefits as stated in Employment Agreement or Company Regulations/CLA.

The amount of payment depends on how it is regulated by each company.



# Retirement Security Programs

## 4. Pension Security (JP)

Pension Security are paid to participants who have reached the retirement age , in accordance with the formula established.

(Art. 41 (3) Law No. 40/2004)

Those who have completed **15+ years** of contributions are **eligible for monthly pension** payments at **IDR 300,000 (USD\$18.12)** and **up to a maximum of IDR 3.6 million (USD\$217.46)**.

(Art. 2(1) and 18 of Government Regulation No. 45/2015)

The contribution is deducted at **3% of the monthly wage** , with 2% covered by the employer and 1% by the participant.

(Art. 28 of Government Regulation No. 45/2015)

## 5. Old-Age Security (JHT)

Old-Age Security is **paid in a lump sum** .

(Art. 22 (3) Government Regulation No. 45/2015)

Those who have completed **10 years or more of contributions** can **partially withdraw the Old -Age Security before retirement age** , up to **30% for home ownership** or **10% for other retirement -related expenses** .

(Art. 22 (5) Government Regulation No. 45/2015)

The contribution is **set at 5.7% of wages** , with 3.7% by the company and 2% covered by the participant.

(Art. 28 (3) Government Regulation No. 45/2015)

# ***Issue 1:* Informal Workers Unable to Participate in Pension Security Programs**

Despite having those rules and programs, Indonesia still faces various issues related to the elderly workers protection system .

**More than 80%** of elderly population ( 7.5 million individuals) works in informal sector .

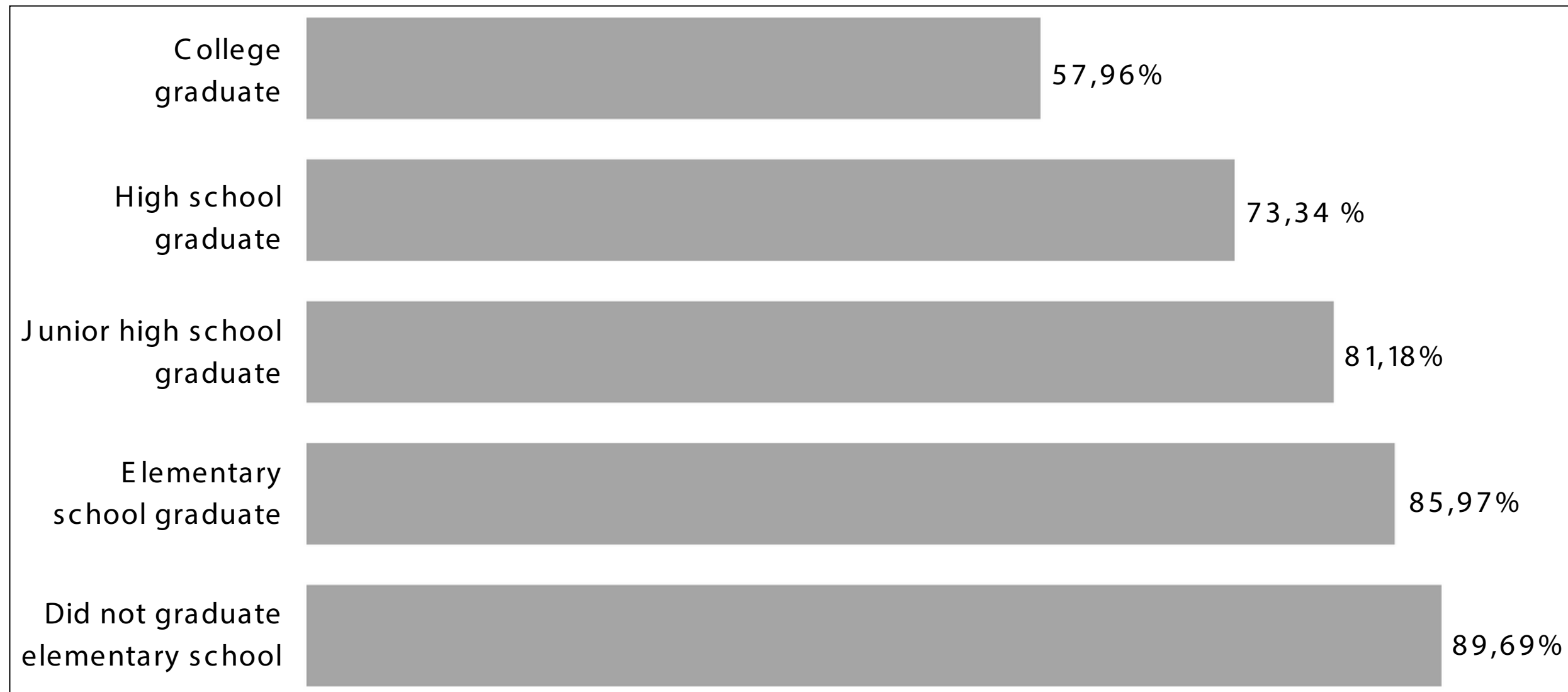
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This lack of protection for informal workers may **cause financial insecurity in their later years**

Informal workers in rural areas are often **associated with manual and heavier labor** , which might impact their health and quality of life



# *Issue 1:* Informal Workers Unable to Participate in Pension Security Programs



*Source: Statistics Indonesia, 2024.*

The lower the education level, the more likely an elderly work in informal sector

**72%** of older population finished only elementary school or never at all (that is almost 6.8 million of senior population)

Nearly 90% of informal sector workers have not completed elementary school.  
As a result, **they are more likely to be trapped in poverty line** due to lack of pension plans.

## ***Issue 2:* High Number of Workforce with Limited Labor Demand/Job Vacancy Results in Lack of Focus on Senior Citizens**

- **Government's Priority** = Expand the labor market and enhance education for the productive -age group (e.g. establishing universities for Diploma or vocational programs).

**4 million graduates** enter the labor market every year

While there are only **2 million job vacancies available.**

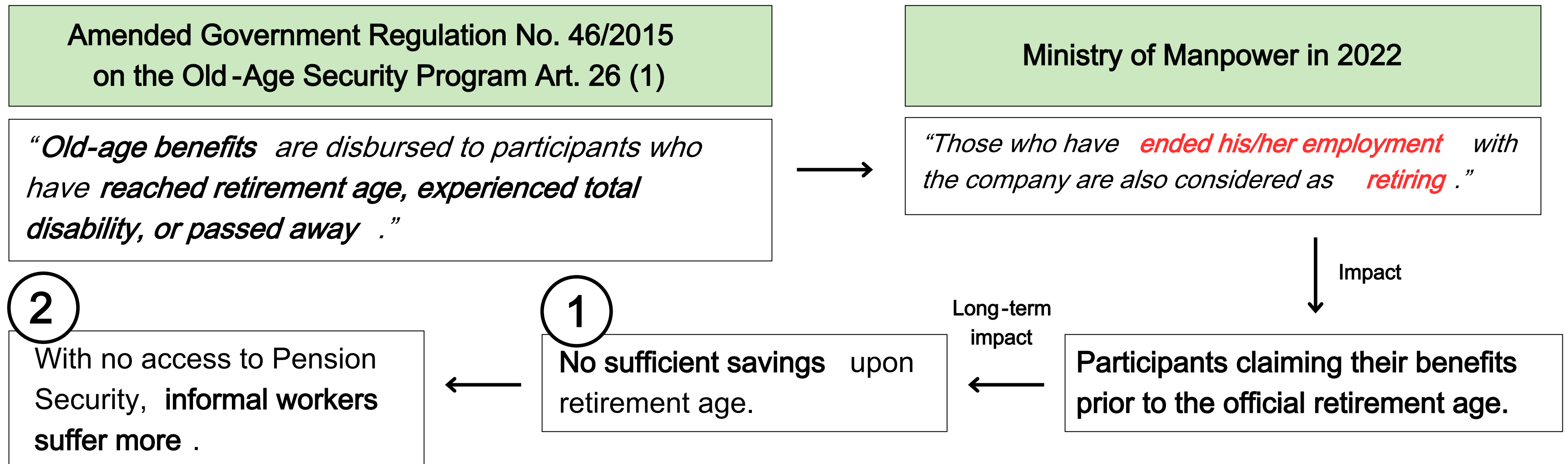
- **Employers prefer to hire young workers** because of their abundance.
- **Aging is often accompanied by a decline in physical capacity,** becoming the biggest impediment for re -integration as the process directly impacts labor productivity

### ***Issue 3:*** Low Participation and Inconsistent Regulation Implementation Regarding Old -Age Security (JHT)

**Only 8.5%** of households with elderly are covered by pension schemes, third lowest among ASEAN countries.

*One of the factors contributing to the low coverage is*

**the inconsistent implementation of regulations regarding the Old -Age Security.**



# V. Conclusion

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- ➊ Inconsistent regulations result in disharmonious relationship with other regulations (e.g. allowing Old-Age Security funds be disbursed when one has ended their employment relationship), **often** happen in the wake of changing cabinet .
- ➋ There are very few regulations protecting elderly workers in the informal sector.
- ➌ Informal workers should be allowed to participate in the Pension Security (JP) Programs by allowing them to pay the premium
- ➍ Further comparative study and observation is desired , especially from other countries with high productive age composition yet facing transition into an aging society.



# Thank You

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